

Message Text

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PAGE 01 LONDON 03804 01 OF 02 021149 Z

15

ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

CIEP-02 LAB-06 SIL-01 SAL-01 OMB-01 NSC-10 SS-14

STR-08 CEA-02 L-03 H-02 PA-03 PRS-01 USIA-12 RSR-01

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R 021135 Z APR 73

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0170

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 02 LONDON 03804

DEPARTMENT PASS TREASURY, COMMERCE, FRB.

E. O. 11652: N/ A

TAGS: ECON. UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 30

BEGIN SUMMARY: THE POUND STRENGTHENED AGAINST THE
DOLLAR DURING THE WEEK RISING TO \$2.4825 ON WEDNESDAY,
MARCH 28, BUT THEN DROPPED BACK A BIT, CLOSING AT
\$2.4815-1/2 ON THURSDAY, MARCH 29. SPECULATIVE
UNCLASSIFIED

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PAGE 02 LONDON 03804 01 OF 02 021149 Z

ACTIVITY IN THE GOLD MARKET CAUSED THE PRICE TO RISE AS HIGH AS \$91.50 AN OUNCE AT THE TUESDAY, MARCH 27, MORNING FIXING. ON MONDAY, THE GOVERNMENT PUBLISHED THE WHITE PAPER WHICH SET OUT THE DETAILS OF THE OPERATION OF THE COUNTER- INFLATION PROGRAM AND THE PAY AND PRICE CODE. THE MONEY SUPPLY (M1), IN THE THREE MONTHS TO MID- FEBRUARY, GREW AT AN ANNUAL RATE OF 11 PER CENT AND M3 AT AN ANNUAL RATE OF CLOSE TO 40 PER CENT. RETAIL PRICES AS OF MID- FEBRUARY WERE 7.9 PER CENT HIGHER THAN A YEAR AGO. CONSUMER CONFIDENCE IMPROVED IN MARCH FOR THE FIRST TIME SINCE LAST NOVEMBER. AS OF MARCH 26, ALL THE STOCK EXCHANGES IN THE BRITISH ISLES WERE INTEGRATED INTO ONE STOCK EXCHANGE. THE MINIMUM LENDING RATE REMAINED AT 8-1/2 PER CENT. END SUMMARY

1. STERLING GAINED 65-1/2 POINTS ON LAST THURSDAY' S CLOSE AND REACHED ITS HIGH FOR THE WEEK ON TUESDAY AT \$2.4825. GOLD ROSE FROM \$84.50 ON FRIDAY, MARCH 23, TO \$90.00 ON TUESDAY, THEN FELL TO \$88.25 ON WEDNESDAY AND ROSE AGAIN TO \$89.25 ON THURSDAY. MUCH OF THE SPECULATIVE BUYING WAS DUE TO FORECASTS THAT THE PRICE MIGHT RISE TO \$100 AN OUNCE OR MORE IN ANY FUTURE BOUT OF CURRENCY UNREST. THE " FINANCIAL TIMES" REPORTS THAT OFFICIAL DENIALS OF ANY CENTRAL BANK PLANS TO SELL GOLD TO DEPRESS THE FREE MARKET PRICE SEEM, IF ANYTHING, TO HAVE INCREASED THE PRICE OF GOLD.

2. THE GOVERNMENT PUBLISHED ITS WHITE PAPER ON PHASE TWO ON MONDAY AND AN ORDER ACTIVATING THE THE PAY AND PRICE CODE WILL GO INTO EFFECT APRIL 1. THE GOVERNMENT' S GENERAL AIM IN THE WHITE PAPER IS TO SUSTAIN INVESTMENT CONFIDENCE AND A 5 PER CENT ANNUAL ECONOMIC GROWTH RATE WHILE CONTINUING TO BEAR DOWN HEAVILY ON WAGE AND PRICE INFLATION AFTER THE FREEZE. A NUMBER OF CONCESSIONS HAVE BEEN MADE TO INDUSTRY. COMPANIES WILL BE ALLOWED TO PASS ON MORE COSTS THAN INITIALLY SEEMED LIKELY AND RETAIN MORE OF THE BENEFITS OF INCREASES IN PRODUCTIVITY AND VOLUME OF SALES. IN GENERAL, THE WHITE PAPER DIFFERS LITTLE FROM THE GREEN PAPER PUBLISHED FEBRUARY 26 (SEE LONDON 2335). DETAILS UNCLASSIFIED

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PAGE 03 LONDON 03804 01 OF 02 021149 Z

WILL FOLLOW SEPTTEL.

3. THE MONEY SUPPLY CONTINUED TO INCREASE AT A RAPID RATE DURING THE EARLY MONTHS OF 1973. ACCORDING TO THE BANK OF ENGLAND, THE MONEY SUPPLY (M3) EXPANDED BY 810 MILLION POUNDS (S. A.) TO REACH 26,510 MILLION POUNDS AS OF JANUARY 21, A RISE EQUIVALENT TO AN ANNUAL RATE OF GROWTH OF ALMOST 40 PER CENT. HOWEVER, THE NARROWER DEFINITION OF MONEY SUPPLY (M1) CONTINUED TO SHOW A VERY MUCH SLOWER RATE OF GROWTH. BEFORE SEASONAL ADJUSTMENT, THE M1 FIGURE ACTUALLY SHOWED A SLIGHT NET FALL. THE CONTINUING DISPARITY BETWEEN THE TWO MEASURES OF MONEY STOCK IS ATTRIBUTED BY THE BANK TO SPECIAL CIRCUMSTANCES IN THE MONEY MARKETS. IT APPEARS THAT THE STRUCTURE OF SHORT- TERM INTEREST RATES HAS ENCOURAGED SOME BANK CUSTOMERS TO DRAW ON OVERDRAFTS IN ORDER TO REINVEST THE FUNDS IN SUCH AREAS AS STERLING CERTIFICATES OF DEPOSIT. HIGH INTEREST RATES HAVE ALSO ATTRACTED FUNDS OUT OF CHECKING ACCOUNTS INTO SPECIAL DEPOSITS WHICH

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PAGE 01 LONDON 03804 02 OF 02 021148 Z

11

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INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 EB-11

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UNCLAS SECTION 02 OF 02 LONDON 03804

EXAGGERATE THE INCREASE IN M3.

4. THE FEBRUARY INDEX OF RETAIL PRICES ROSE BY 0.6 PER CENT TO 172.4 (JANUARY 1962 100). THE BREAKDOWN OF THE FIGURES MAKES IT CLEAR THAT THE FREEZE HAS CONTINUED TO BE GENERALLY EFFECTIVE WHERE IT APPLIES. EXCLUDING FOOD ITEMS, THE INDEX SHOWED AN INCREASE OF ONLY 0.2 PER CENT (0.4 POINTS) TO 168.8 DURING THE PERIOD. THE SEPARATE INDEX FOR FOOD WENT UP BY 1.8 PER CENT TO 183.7 DURING THE MONTH. THIS WAS UNCLASSIFIED

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PAGE 02 LONDON 03804 02 OF 02 021148 Z

LOWER THAN THE 2 PER CENT INCREASE RECORDED IN JANUARY.

5. THE LATEST SURVEY OF FINANCIAL EXPECTATIONS MADE BY THE BRITISH MARKET RESEARCH BUREAU INDICATES AN UPTURN IN CONSUMER CONFIDENCE. HOWEVER, THERE HAS ALSO BEEN A CONSIDERABLE INCREASE IN THE NUMBER OF HOUSEHOLDS WHO FEEL THEY ARE LESS WELL OFF THAN THEY WERE 12 MONTHS AGO. THE SURVEY ALSO INDICATES THAT DEMAND FOR CONSUMER DURABLES REMAINS HIGH.

6. INTEGRATION OF ALL THE STOCK EXCHANGES IN THE BRITISH ISLES INTO ONE STOCK EXCHANGE WAS FORMALLY COMPLETED ON MARCH 25. AS FAR AS MEMBERS OF THE PUBLIC ARE CONCERNED, THE NEW STRUCTURE SHOULD MAKE NO IMMEDIATE DIFFERENCE TO THEIR DAY- TO- DAY CONTACT WITH STOCKBROKERS. ONE CHANGE, THOUGH, WILL BE THAT WOMEN MEMBERS WILL NOW BE ADMITTED TO THE " FLOOR" OF THE EXCHANGE.

7. THE DISCOUNT ON STERLING NARROWED ALL WEEK.

	3/22	3/29	CHANGE
1 MONTH	0.72-1/2	0.59-1/2	DOWN 0.13
3 MONTHS	2.07-1/2	1.72-1/2	DOWN 0.35
6 MONTHS	3.97-1/2	3.45-1/2	DOWN 0.52

(ALL FIGURES IN CENTS)

8. LOCAL AUTHORITY DEPOSIT RATES WERE DOWN AT ALL MATURITIES.

	3/22	3/29	CHANGE
1 MONTH	10-13/16	10-1/16	DOWN 3/4
3 MONTHS	10-7/8	10-3/16	DOWN 11/16
6 MONTHS	10-13/16	10-1/4	DOWN 9/16

9. EURODOLLAR RATES WERE DOWN AT 1 MONTH, UNCHANGED AT 3 MONTHS, AND UP AT 6 MONTHS OVER THE COURSE OF THE WEEK.

	3/22	3/29	CHANGE
1 MONTH	8-5/8	8-3/8	DOWN 1/4
3 MONTHS	8-5/8	8-5/8	UNCHANGED
6 MONTHS	8-1/2	8-3/4	UP 1/4

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PAGE 03 LONDON 03804 02 OF 02 021148 Z

10. GOLD CLOSED AT \$89.25 ON THURSDAY, UP \$7.37-1/2 FROM LAST THURSDAY'S CLOSE.

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*** Current Classification *** UNCLASSIFIED

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Decaption Note:
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Disposition Approved on Date:
Disposition Authority: n/a
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Subject: ECONOMIC DEVELOPMENTS - WEEK ENDING MARCH 30
TAGS: ECON, UK
To: BERN
BONN
BRUSSELS
COPENHAGEN
DUBLIN
EC BRUSSELS
EUR

LUXEMBOURG
SECSTATE WASHDC

Type: TE

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